

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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DEBRA HALL, Individually and on Behalf of	:	Civil Action No. 07-8252 (SAS)
All Others Similarly Situated,	:	
	:	CLASS ACTION COMPLAINT FOR
Plaintiff,	:	VIOLATIONS OF FEDERAL SECURITIES
	:	LAWS
vs.	:	
	:	DEMAND FOR JURY TRIAL
THE CHILDRENS PLACE RETAIL	:	
STORES, INC., EZRA DABAH, HITEN	:	
PATEL and SUSAN RILEY,	:	
	:	
Defendants.	:	
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Plaintiff has alleged the following based upon the investigation of Plaintiff's counsel, which included a review of United States Securities and Exchange Commission ("SEC") filings by The Children's Place Retail Stores, Inc. ("The Children's Place" or the "Company"), as well as regulatory filings and reports, securities analysts' reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the Company, and Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

### **NATURE OF THE ACTION**

1. This is a federal class action on behalf of purchasers of the common stock of The Children's Place between August 3, 2006 to August 23, 2007, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

### **JURISDICTION AND VENUE**

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the SEC [17 C.F.R. §240.10b-5].

3. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and Section 27 of the Exchange Act.

4. Venue is proper in this District pursuant to Section 27 of the Exchange Act and 28 U.S.C. §1391(b). Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District.

5. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

## **PARTIES**

6. Plaintiff Debra Hall, as set forth in the accompanying certification and incorporated by reference herein, purchased the common stock of The Children's Place at artificially inflated prices during the Class Period and has been damaged thereby.

7. Defendant The Children's Place, through its subsidiaries, operates as a specialty retailer of merchandise for children from newborn to ten years of age. The Company designs, contracts to manufacture and sells apparel and accessories and other children's-oriented merchandise under The Children's Place and Disney Store brand names.

8. (a) Defendant Ezra Dabah ("Dabah") is, and was at all relevant times, Chairman and Chief Executive Officer ("CEO") of The Children's Place.

(b) Defendant Hiten Patel ("Patel") is, and was at all relevant times, Senior Vice President and Chief Financial Officer ("CFO") of The Children's Place.

(c) Defendant Susan Riley ("Riley") is, and was at all relevant times, Executive Vice President of Finance and Administration of The Children's Place.

(d) Defendants Dabah, Patel and Riley are collectively referred to herein as the "Individual Defendants."

9. During the Class Period, the Individual Defendants, as senior executive officers and/or directors of The Children's Place, were privy to confidential and proprietary information concerning The Children's Place, its operations, finances, financial condition and present and future business prospects. The Individual Defendants also had access to material adverse non-public information concerning The Children's Place, as discussed in detail below. Because of their positions with The Children's Place, the Individual Defendants had access to non-public information about its business, finances, products, markets and present and future business prospects via access to internal corporate documents, conversations and connections with other corporate officers and

employees, attendance at management and/or board of directors meetings and committees thereof, and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew or recklessly disregarded that the adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

10. The Individual Defendants are liable as direct participants in the wrongs complained of herein. In addition, the Individual Defendants, by reason of their status as senior executive officers and/or directors, were “controlling persons” within the meaning of Section 20(a) of the Exchange Act and had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Because of their positions of control, the Individual Defendants were able to and did, directly or indirectly, control the conduct of The Children’s Place’s business.

11. The Individual Defendants, because of their positions with the Company, controlled and/or possessed the authority to control the contents of its reports, press releases and presentations to securities analysts and through them, to the investing public. The Individual Defendants were provided with copies of the Company’s reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Thus, the Individual Defendants had the opportunity to commit the fraudulent acts alleged herein.

12. As senior executive officers and/or directors and as controlling persons of a publicly traded company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was, and is, traded on the NASDAQ National Market (“NASDAQ”) and governed by the federal securities laws, the Individual Defendants had a duty to promptly disseminate accurate and truthful information with respect to The Children’s Place’s financial condition and performance,

growth, operations, financial statements, business, products, markets, management, earnings and present and future business prospects, and to correct any previously issued statements that had become materially misleading or untrue, so that the market price of The Children's Place's common stock would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

13. The Individual Defendants are liable as participants in a fraudulent scheme and course of conduct which operated as a fraud or deceit on purchasers of The Children's Place's common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding The Children's Place's business, operations and management and the intrinsic value of The Children's Place's securities; and (ii) caused Plaintiff and members of the Class to purchase The Children's Place's common stock at artificially inflated prices.

#### **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

14. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all those who purchased the common stock of The Children's Place between August 3, 2006 to August 23, 2007, inclusive, and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

15. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, The Children's Place common stock was actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this

time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by The Children's Place or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

16. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law complained of herein.

17. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class action and securities litigation.

18. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business and operations of The Children's Place;

(c) whether the price of The Children's Place common stock was artificially inflated during the Class Period; and

(d) to what extent the members of the Class have sustained damages and the proper measure of damages.

19. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

### **SUBSTANTIVE ALLEGATIONS**

20. Defendant The Children's Place describes itself as a "leading specialty retailer of children's merchandise. The Company designs, contracts to manufacture and sells high-quality, value-priced merchandise under the proprietary "The Children's Place" and licensed "Disney Store" brand names."

21. On June 3, 2004, The Children's Place issued a press release announcing that "it is engaged in discussions with The Walt Disney Company to acquire and operate under a long-term license arrangement The Disney Store retail chain in the United States and Canada."

22. On October 20, 2004, The Children's Place issued a press release announcing that the Company and The Walt Disney Company had entered into a definitive agreement for The Children's Place to acquire and operate under a long-term licensing arrangement the Disney Store retail chain in North America. With regard to the agreement, Defendant Dabah stated:

This exciting and unique opportunity gives us instant access to one of the most magical brands in the world, and is consistent with our goal of being the leading retail player in the newborn to age 10 category. The Disney Store North America profile is strikingly similar to that of The Children's Place: the chain is a mall-based, vertically integrated specialty retailer, with a comparable customer demographic. Disney Store North America generates high sales productivity, driven by significant customer traffic. We believe that by utilizing our merchandising and sourcing expertise and leveraging our infrastructure we can further increase the level of profitability and build on the chain's positive momentum.

By combining the Disney brand with our retail expertise, we believe we can increase sales, produce significant margin expansion and leverage operating expenses - resulting in increased earnings power for our shareholders. Assuming a November

closing, we anticipate that the transaction will be accretive to earnings in fiscal 2004 and on an annualized basis in fiscal 2005.

With regard to the agreement, the press release stated:

#### TRANSACTION OVERVIEW

The Children's Place will acquire the equity of the Disney Store North America from Disney Enterprises, Inc. in exchange for a working capital adjustment payment to Disney at the close of the transaction. The Disney Store North America will retain responsibility for the store lease obligations. The Disney Store North America will be held in a wholly owned subsidiary of The Children's Place and will have the exclusive right to operate the Disney Stores in the United States and Canada under a long-term license agreement. The Disney Store North America will continue to manufacture, source, offer, and sell merchandise featuring "Disney-branded" characters, past, present and future, and will begin to pay royalties to Disney on its physical retail store sales on the second anniversary of the closing of the transaction. Furthermore, beginning in October 2005, the Disney Store North America will operate an Internet store featuring a select assortment of merchandise offered in the physical retail locations. The Walt Disney Company will continue to operate the Disney Catalog and will maintain a Disney online retail presence.

The Children's Place has committed to invest up to \$100 million into the remodeling and operations of the Disney Store North America. Of this amount, an initial \$50 million will be funded at closing. The Children's Place will fund the transaction with cash on hand and short term borrowings and at this time, does not anticipate taking on any long-term debt or issuing any stock as a result of this transaction. In connection with the acquisition, the process of expanding its credit facility and establishing a working capital facility for its new subsidiary with its working capital lender, Wells Fargo Retail Finance.

23. In the Company's annual report on Form 10-K, filed with the SEC on or about April 14, 2005, The Children's Place described its licensing agreement with Disney as follows:

#### License Agreement With Disney

In connection with the acquisition of the DSNA Business, two of our subsidiaries entered into a license and conduct of business agreement with an affiliate of Disney (the "License Agreement") under which our subsidiaries have the right to use certain Disney intellectual property to operate the Disney Store retail chain in exchange for ongoing royalty payments. The agreement allows our subsidiaries to operate retail stores in the United States and Canada using the "Disney Store" name and to contract, manufacture, source, offer and sell merchandise featuring Disney-branded characters, past, present and future. Our subsidiaries will make royalty payments to Disney beginning in November 2006 equal to 5% of net sales from physical Disney Store locations, subject to an additional royalty holiday period with respect to a



limited number of stores. Beginning in April 2007, our subsidiaries will operate the www.disneystore.com Internet store, which will feature a select assortment of merchandise offered in the physical Disney Store locations. The initial term of the License Agreement is through January 2020, and if certain financial performance and other conditions are satisfied, it may be extended at our option for up to three additional ten-year terms.

24. The Class Period begins on August 3, 2006. On that date, The Children's Place issued a press release announcing that its July sales were up 28%; it anticipated a second quarter loss of \$(0.54) to \$(0.56) per share and it increased its fiscal 2006 EPS guidance to \$2.85 to \$2.95 per share. With regard to the Company's financial results, Defendant Dabah stated, in pertinent part, as follows:

We are pleased to see our strong sales momentum continue into July, closing off a strong first half for The Children's Place and Disney Store brands. We are also encouraged by the initial favorable customer response to our Back-to-School offerings at both brands and we are especially pleased with the continued strength at Disney Store.

25. In response to that announcement, shares of the Company's common stock rose 5%, to close at \$57.02 per share, on heavy trading volume.

26. On August 17, 2006, the Company issued a press release announcing its financial results for the second quarter of 2006, the period ended July 29, 2006. For the quarter, the Company reported consolidated net sales of \$395.6 million and a net loss of \$15.2 million, or (\$0.53) per share. Defendant Dabah commented on the results, stating, in pertinent part, as follows:

We are pleased with our second quarter and first half financial results. We drove substantial improvements at both brands through consistent execution of our strategies. We are particularly pleased with our first half results, are encouraged by our initial start to the Back-to-School season, and we look forward to the second half of the year.

27. In response to the Company's earnings announcement, the price of The Children's Place common stock rose 4%, to close at \$59.33 per share, on heavy trading volume.

28. On August 31, 2006, the Company issued a press release announcing its sales results for the four-week period ended August 26, 2006. For the period, the Company reported total sales of \$155.4 million.

29. On September 7, 2006, the Company issued a press release announcing that it was delaying the filing of its second quarter 2006 Form 10-Q in order to complete its review of accounting for past stock option grants. In that regard, the press release stated:

On August 24, 2006, at the request of the Company's audit committee, the Company's outside counsel began an investigation into the Company's stock option practices. Outside counsel delivered its findings to the audit committee on September 6, 2006. The investigation found various instances in which the Company's records did not correctly reflect the legal grant date for stock options granted to employees and directors of the Company, resulting in errors in the dating of these stock options. The report concluded that, except for one occasion in 2001, as to which the report was inconclusive, the errors in the granting and recording of stock options were unintentional.

The Company is currently engaged in an analysis of the accounting treatment of its stock option grants since its initial public offering in 1997 to determine the extent of any corrections that may be required to its previously reported financial results. The Company cannot predict when this analysis will be completed. While the Company expects that some corrections to its reported financial results will be necessary, it is not yet able to estimate the aggregate amount of any such corrections or whether such corrections would be material. Accordingly, the Company has not yet determined whether any corrections would be made by recording a non-cash charge to earnings for the second quarter of 2006, or whether it may be necessary to restate its previously filed financial statements for prior fiscal years and the first quarter of fiscal 2006.

30. On October 5, 2006, the Company issued a press release announcing its sales results for the five-week period ended September 30, 2006 and an update concerning its stock option investigation. For the period, the Company reported total sales of \$210.3 million. With regard to the stock options investigation, the press release stated:

Separately, in connection with the Company's previously announced investigation into its stock option practices which concluded that there were errors in the dating of various stock option grants, at the request of the Company's audit committee, the Company's outside counsel is continuing its investigation and conducting additional follow-up work regarding these stock option grants. While the Company is still

conducting its accounting analysis and has not yet determined definitively the impact of these errors in the dating of stock options on the Company's historical financial statements, the Company expects that it will be necessary for it to restate its previously filed financial statements for certain fiscal years and for periods in fiscal 2006. Accordingly, the Company's previously issued financial statements and other historical financial information and related disclosures relating to periods through the second quarter of fiscal 2006 contained in the Company's SEC filings, including applicable auditor reports, and press releases should not be relied upon. The Company believes that this expected restatement will not have a material impact on its fiscal 2006 operating results. The Company is committed to resolving these issues as quickly as possible and will make a further announcement as soon as additional information is available.

In addition, the Company announced that, on September 29, 2006, it was contacted by the Securities and Exchange Commission in connection with an informal investigation of the Company's stock option grants. The Company intends to cooperate fully with the SEC investigation.

31. On November 2, 2006, the Company issued a press release announcing its sales results for the four-week period ended October 28, 2006. For the period, the Company reported total sales of \$184.8 million.

32. On November 13, 2006, the Company issued a press release announcing that it was delaying its third quarter 2006 earnings release and conference call pending completion of its review of the Company's stock option practices.

33. On November 30, 2006, the Company issued a press release announcing its sales results for the four-week period ended November 25, 2006. For the period, the Company reported total sales of \$199.4 million.

34. On January 4, 2007, the Company issued a press release announcing its sales results for the five-week period ended December 30, 2006. For the period, the Company reported total sales of \$318.5 million. With regard to the results, the press release stated:

The Company believes that December results at The Children's Place brand were negatively impacted by unseasonable weather, which resulted in higher than planned promotional activity. In addition, the Company believes it would have benefited from increased ownership of key volume drivers and fresh spring goods, given early reads on Spring merchandise.

At Disney Store, December results reflect the Company's strategies to build a full-price business. The month was driven by strong customer response to the Company's toy and apparel assortments.

35. On January 31, 2007, the Company issued a press release announcing that it concluded its stock options investigation. In that regard, the press release stated, in pertinent part, as follows:

#### Summary of Investigation and Key Findings

The comprehensive investigation was directed by a special committee of the Board of Directors and was undertaken in conjunction with independent legal counsel from Weil Gotshal & Manges LLP and forensic accounting assistance from FTI Consulting, Inc. During the two month independent investigation, which continued an earlier investigation commenced in August 2006, all the Company's option grants since the Company's IPO in 1997 through the last grant made by the Company in February 2006, involving grants on more than 120 occasions, were considered. Based on statistical analysis and other information obtained in the investigation, 21 grants were analyzed in detail. The investigation involved the review and analysis of tens of thousands of emails and other documents, including the restoration of documents to the extent available from the Company's information technology systems, and included interviews of 14 current and former officers, directors, and employees of the Company.

The special committee's report included the following key findings:

- There was no conclusive evidence of intentional backdating of options or other misconduct in connection with the option grant process.
- There was no evidence of an intent to mislead about option grant dates or exercise prices.
- No member of management and no director engaged in improper self-dealing in connection with the option grants made by the Company.
- All Company personnel cooperated fully with the investigation.
- The Company did not maintain appropriate governance and other internal controls, which resulted in errors in the dating of options and other irregularities in option grants. In many instances options were dated before all grant-making processes were finalized. Consequently, in such instances the option exercise price was lower than it should have been based on the trading price on the date the grant process was completed and incorrect charges were taken for the options for financial reporting purposes. Also, in a few instances, the Company may have selected grant dates with a view toward upcoming disclosures.

A copy of the report is also being provided to the SEC in connection with the previously announced informal investigation by the SEC of the Company's option grant practices.

#### Key Near-Term Actions

Following specific recommendations by the special committee, the Board of Directors will implement the following initiatives to improve the Company's governance, internal controls and option grant practices:

#### Governance and Management Changes:

-- The positions of Chair of the Board and Chief Executive Officer will be separated, effective immediately. An independent director will be selected to serve as non-executive Chair of the Board as soon as practicable. Sally Frame Kasaks, currently the Lead Director, will continue in such position and act as Interim Chair until a permanent Chair is selected. Ezra Dabah will continue as Chief Executive Officer and as a member of the Board of Directors.

-- The Board of Directors will be expanded to include two new independent directors, as soon as practicable. It is anticipated that, after this expansion of the Board of Directors, an independent director will be selected to serve as Chair of the Board on an ongoing basis.

-- The new position of Executive Vice President, Finance and Administration has been established and Susan Riley, the Company's Senior Vice President and Chief Financial Officer, since April 2006, has been elected to this position. Ms. Riley will be responsible for supervising the Company's finance, treasury, accounting, legal and human resource functions, reporting to the Chief Executive Officer and the Board of Directors.

-- At the Board of Directors' request, Steve Balasiano has relinquished his responsibilities as Chief Administrative Officer, General Counsel and Secretary, effective immediately. However, Mr. Balasiano will continue as a Senior Vice President with supervisory responsibility for the Company's real estate, construction and facilities, store design, and non-merchandise purchasing. The Company will commence a search for a new General Counsel and Secretary immediately.

-- The Board of Directors has commenced a comprehensive review, with the assistance of independent counsel, of the Company's governance system and processes and its internal controls, and will make appropriate improvements in the near-term.

\* \* \*

Ms. Kasaks, the Lead Director, stated, "We are very pleased that after an exhaustive review we have brought the investigation to a conclusion. We believe that the Board's actions will position The Children's Place as a leader in adopting and

executing best practices in governance, compensation policies, and internal controls and will enable the Company to maintain its position as one of the nation's leading children's specialty retailers. We have full confidence in Chief Executive Officer, Ezra Dabah, who has done an extraordinary job in growing and evolving the Company's business for more than a decade. We believe that under Ezra's able leadership, along with the help of Sue Riley in her new position and the full talented management team, the Company will be stronger and more successful than ever."

Ezra Dabah, Chief Executive Officer of the Company, added, "The thorough investigation by the special committee brought to the Company's attention various errors in our option granting process, which we are committed to correcting. I regret that this happened on my watch and, as CEO, I take responsibility. As a Board, the actions we are taking today will strengthen the Company's ability to expand its business as one of the nation's leading children's specialty retailers and to become a leader in adopting and executing best practices in governance, internal controls and compensation policies. We look forward to working together to maximize shareholder value."

#### Summary of Financial Implications

Based on the results of the investigation and its own additional review, management has concluded that incorrect measurement dates were used for financial reporting purposes in respect to option grants. As previously announced, the Company will restate its previously issued financial statements for the fiscal years 2003, 2004, 2005 and the first fiscal quarter 2006 and may amend the financials disclosed in its fiscal 2006 second quarter press release. At this time, the Company does not expect this cumulative restatement to exceed \$24 million, pre-tax, or \$17 million, after tax, with the majority of the restatement impacting fiscal 2005. Approximately \$22 million of the total pre-tax restatement amount is expected to be non-cash. As stated previously, the amounts of the restatement and related expenses are subject to significant adjustment pending the review of the Company's determination of the appropriate accounting for its previously issued stock options, related discussions with the staff of the SEC, and clarification of certain tax laws and their accounting impact. The Company intends to complete the restatement of its financial statements as soon as practicable. There is no assurance that, when finally determined, the Company will not be required to make adjustments in a greater amount.

At this time, the Company also expects to incur in fiscal 2006 costs in connection with the investigation estimated at approximately \$7 million. As recently announced, the Company and certain of its current and former directors and officers have been named as defendants in a lawsuit relating to the Company's past option grant practices. The costs and any potential liabilities that the Company may incur in connection with such lawsuit and the pending SEC investigation have not been included in the charges and costs referred to above.

The Company plans to report its preliminary information regarding its financial results for the fiscal third quarter ended October 28, 2006 shortly.

36. On February 1, 2007, the Company issued a press release announcing its preliminary financial results for the third quarter of 2006, the period ended October 28, 2006. For the quarter, the Company reported consolidated net sales of \$550.4 million and preliminary net income of \$38 million. With regard to the Company's outlook, the press release stated:

Guidance

Fourth Quarter 2006

The Company stated that, at this time, it anticipates reporting preliminary fourth quarter fiscal 2006 net income of approximately \$45 to \$48 million, including approximately \$3.5 million, pre-tax, in equity compensation expense under SFAS 123R. This guidance reflects month-to-date January comparable store sales in the negative mid-single digits for The Children's Place and positive mid-twenties for Disney Store.

Also included in the Company's fourth quarter guidance are:

- \* An approximate \$4 to \$6 million tax benefit due to the utilization of certain foreign tax credits;

- \* approximately \$9 million, pre-tax, in costs in connection with the stock option investigation and tax implications related to outstanding grants. These costs are subject to significant adjustment pending the review of the Company's determination of the appropriate accounting for its previously issued stock options, related discussions with the staff of the Securities and Exchange Commission, and clarification of certain tax laws and their accounting impact; and

- \* *approximately \$6 to \$8 million in pre-tax write-offs due primarily to: i.) the re-evaluation of a planned 42nd Street store location in New York City to reflect configurations currently under consideration; and ii.) infrastructure investments that had been made in connection with Disneystore.com, as the Company is in discussions with the Walt Disney Company to form an e-commerce alliance, in which Disneystore.com would maintain a presence within Disney.com, in an effort to create a seamless experience for the guest.*

Excluding the three bulleted items shown above, preliminary fourth quarter net income is anticipated to be approximately \$51 to \$53 million. The Company has excluded these items because it does not believe they are indicative of the core business and that it is a beneficial supplemental disclosure to investors in analyzing its past and future performance.

Fiscal 2006



At this time, the Company anticipates reporting preliminary full year fiscal 2006 net income of approximately \$83 to \$86 million, including approximately \$13 million, pre-tax, in equity compensation expense under SFAS 123R, approximately \$14 million, pre-tax, in stock option investigation and related expenses, and the above referenced tax benefit and write-offs.

The Company anticipates a preliminary diluted share count for the fourth quarter and fiscal 2006 of approximately 30 million shares.

“Third quarter results at both brands were strong, while the fourth quarter was challenging at The Children’s Place and strong at Disney Store,” said Ezra Dabah, Chief Executive Officer of The Children’s Place. “At The Children’s Place brand, sales were impacted primarily due to lack of unit inventory ownership and weather patterns. Importantly, the fundamentals and competitive advantages that have made our business successful remain intact.”

Mr. Dabah continued, “At The Children’s Place, we are excited to announce the launch of our new ‘store-within-a-store’ shoe concept, which we plan to roll out during the upcoming back-to-school season. We believe our successful formula of great fashion and high quality at value prices will fill a large void in the marketplace, when applied to children’s footwear.”

#### Fiscal 2007

At this time, the Company anticipates fiscal 2007 earnings per share of approximately \$3.55 to \$3.65. The Company anticipates a tax rate of 38% and 31 million diluted shares outstanding. In addition, this guidance includes a provision of approximately \$6 million, in pre-tax expense to address issues with certain recently remodeled Disney Stores. This guidance does not reflect any residual expenses the Company may incur as a result of the conclusion of the stock option investigation.

***The Company has recently commenced discussions with the Walt Disney Company regarding potential modifications to certain terms of the Company’s long-term license agreement to operate the Disney Store retail chain in North America, some of which may be material. These discussions are still at an early stage and, as such, the Company cannot predict the specific nature of any modifications to the license agreement. If the Company is unable to reach agreement with Disney on the modifications, Disney may assert that certain defaults exist under the license agreement and Disney may reserve its rights and remedies under the agreement.***  
[Emphasis added.]

37. Following the earnings announcement, the Company held a conference call with analysts and investors. With regard to the Disney agreement and the \$6 million expense the



Company took in the quarter to remodel its Disney stores, Defendants Dabah and Riley stated, in pertinent part, as follows:

EZRA, CEO, THE CHILDREN'S PLACE RETAIL STORES, INC.: And Kimberly, as it relates to the Disney license, as we mentioned in our press release, we are discussion with the Walt Disney Company about changes to the license agreement, which could be material. It's really premature for me to comment on the status of these discussions. But most importantly, I believe that it's in the best interest of both of our companies to resolve these issues, and we look forward to do so in the very near future.

\* \* \*

EZRA DABAH: As it relates -- although we were both on the same wavelength at the same time. As it relates to the \$6 million charge. [I don't want to say charge] -- estimated capital --

SUE RILEY, EVP, FINANCE AND ADMINISTRATION, THE CHILDREN'S PLACE RETAIL STORES, INC.: Well, it's expense. Basically, because we're going to have to make some changes to some stores that already have been renovated, we expect -- and this is very, very preliminary, but we felt that we had to factor it into our 2007 earnings estimate. We'll have to take some charges or accelerate some depreciation. We're not sure exactly what form this will take. It's pretty fair to say that because we had to make some pretty extensive renovations to stores that have recently been remodeled, we'll have to take some expense associated with that. And that's all in connection with these discussions that are underway with the Walt Disney Company.

38. On February 8, 2007, the Company issued a press release announcing its total sales for the five-week period ended February 3, 2007. For the period, the Company reported that its total sales were \$127.2 million.

39. On March 8, 2007, the Company issued a press release announcing its total sales for the four-week period ended March 3, 2007. For the period, the Company reported total sales of \$133.8 million.

40. On March 15, 2007, the Company issued a press release announcing its preliminary financial results for the fourth quarter and year end of 2006, the period ended February 3, 2007. For

the quarter, the Company reported consolidated net sales of \$645.2 million and preliminary net income of \$46.8 million. With regard to the Company's outlook, the press release stated:

Fiscal Year 2007 Guidance

The Company now anticipates fiscal 2007 earnings per share of approximately \$3.63 to \$3.73, \$0.08 higher than previous guidance due to an approximate \$4 million reduction in the Company's previously anticipated \$6 million pre-tax expense for fiscal 2007 to address issues with certain recently remodeled Disney Stores. The Company anticipates a tax rate of 38% and diluted shares outstanding of 31 million. This guidance does not reflect any residual expenses the Company may incur as a result of the conclusion of the stock option investigation.

As previously reported, the Company is in discussions with the Walt Disney Company regarding potential modifications to certain terms of the Company's long-term license agreement to operate the Disney Store retail chain in North America, some of which may be material. These discussions began after the Company was notified by Disney that the Company had failed to comply with certain of its obligations under the license agreement, including, among others, obligations with respect to renovation of stores and store maintenance. Disney has asserted that these failures constitute material breaches of the license agreement. The Company and Disney have engaged in a dialogue and have exchanged proposals regarding the resolution of these issues. To date, no agreement has been reached. Accordingly, the Company cannot predict the specific nature of any modifications to be made to the license agreement and no assurances can be made as to the outcome of these negotiations. If the Company is unable to reach agreement with Disney on the modifications, Disney may exercise its rights and remedies under the agreement.

41. Following the earnings announcement, the Company held a conference call with analysts and investors. With regard to Disney, Defendant Dabah stated:

DOROTHY LAKNER: . . . And one last question. Just anything you can say about a timetable we should think about in terms of the negotiations with Disney. Thanks.

\* \* \*

EZRA DABAH: And, Dorothy, in regards to your last questions about potential timing on the negotiation with The Walt Disney Company, as you can imagine that is something we cannot put a timing on. As we mentioned in this morning's press release, we have exchanged proposals and we believe we are making progress. And at this moment we'll leave it as such.

\* \* \*

JOHN MORRIS, ANALYST, WACHOVIA SECURITIES: Thanks. So a couple questions. Ezra, to extent you can talk about it, and I know you've got to be careful on this, but it would probably help us just to kind of clarify a little bit. Is the nature of the discussions with Disney pretty much solely about the remodels and maintenance, as mentioned in the release, or are there other factors? Can you just speak to that?

EZRA DABAH: Yes. We would rather not get into details. Please refer -- refer to the announcement that we made this morning in that -- in that regard.

42. On April 12, 2007, the Company issued a press release announcing its total sales for the five-week period ended April 7, 2007. For the period, the Company reported total sales of \$204.7 million. With regard to the Company's outlook, the press release stated:

At this time, the Company anticipates first quarter 2007 earnings per share to be approximately even with last year's first quarter. The Company continues to expect fiscal 2007 earnings per share of approximately \$3.63 to \$3.73, before any residual expenses the Company may incur as a result of the conclusion of the stock option investigation.

43. In response to the Company's guidance, shares of the Company's stock fell 5%, to close at \$51.23 per share, on extremely heavy trading volume.

44. On May 10, 2007, the Company issued a press release announcing its total sales for the four-week period ended May 5, 2007. For the period, the Company reported total sales of \$140.3 million. With regard to the Company's outlook, the press release stated:

At this time, the Company anticipates reporting preliminary earnings per share of \$0.40 to \$0.42 for the first quarter of fiscal 2007, below previous guidance. While consolidated comparable stores sales results came in at the low end of previous guidance, sales were lower than planned and markdowns were higher at both brands than previously anticipated, primarily due to continued poor Spring performance at The Children's Place, lack of newness at Disney Store and the unfavorable weather experienced in April. This earnings per share range also includes approximately \$2.5 million, pre-tax, in costs paid or accrued in association with the stock option investigation and related expenses.

For fiscal 2007, at this time, the Company anticipates earnings per share of \$3.45 to \$3.55, also below previous guidance. While the Company remains cautiously optimistic regarding the second half of the year, April results and current business trends have made it more difficult to achieve the Company's previous earnings expectation. This updated guidance reflects the \$2.5 million, pre-tax, in stock option

investigation and related expenses incurred in the first quarter but does not contemplate additional residual expenses the Company may incur as a result of the conclusion of the investigation.

45. On May 22, 2007, the Company issued a press release announcing its preliminary financial results for the fiscal first quarter, the period ended May 5, 2007. For the quarter, the Company reported consolidated net sales of \$478.9 million, and preliminary net income of \$13.1 million. With regard to Disney, the press release stated:

As previously reported, the Company has been in discussions with The Walt Disney Company (Disney) regarding potential modifications to certain terms of the Company's long-term license agreement to operate the Disney Store retail chain in North America. These discussions began after the Company was notified by Disney that the Company had failed to comply with certain of its obligations under the license agreement, including, among others, obligations with respect to renovation of stores and store maintenance. Disney has asserted that these failures constitute material breaches of the license agreement.

The Company believes that the discussions between the Company and Disney are nearing conclusion and the parties have exchanged drafts of a letter agreement which contemplates that various modifications would be made to the license agreement. Among other things, it is expected that the Company would commit to renovate or upgrade a substantial number of Disney Stores over the next five years, beginning immediately, and to expend approximately \$175 million for this purpose. If the Company fails to adhere to the new schedule of compliance and renovations or otherwise comply with the modified terms, the agreement is expected to require the Company to pay Disney a significant fee. Disney would continue to retain all its other rights and remedies under the license agreement.

As the final agreement is still pending, the terms are subject to change. Further, there is no assurance that the Company and Disney will enter into a definitive agreement with respect to these matters. If the Company is unable to reach agreement with Disney on the new terms, the Company anticipates that Disney may exercise its rights and remedies under the license agreement. The Company will provide a further update once the agreement is executed or other developments occur.

46. On June 7, 2007, the Company issued a press release announcing its total sales for the four-week period ended June 2, 2007. For the period, the Company reported total sales of \$127.6 million.

47. On June 8, 2007, the Company issued a press release announcing that “it has executed a letter agreement with a subsidiary of The Walt Disney Company (Disney) to resolve assertions by Disney that the Company committed numerous material breaches of its long-term license agreement under which the Company operates the Disney Store retail chain in North America.” Defendant Dabah, commenting on the agreement, stated, in pertinent part, as follows:

We are pleased to have come to an understanding with The Walt Disney Company. We are committed to executing on this important remodel program which will contribute to our goal of elevating the guest experience.

With regard to the agreement, the press release stated:

Under the letter agreement, the Company has agreed to, among other things, remodel a total of 234 existing Disney Stores into a new store prototype being developed by the Company, by the end of fiscal 2011. The first nine remodels, which will include two stores bearing the “Mickey” format, will be completed during the second half of fiscal 2007. The Company is required to remodel at least 67 additional Disney Stores, 33 of which will be “Mickey” stores, into the new store prototype by the end of fiscal 2008 and to remodel an additional 53, 70 and 35 Disney Stores during fiscal 2009, 2010 and 2011, respectively. In addition, by the end of fiscal 2008, the Company will open at least 18 new Disney Stores using the new store prototype.

In addition, under the terms of the letter agreement, the Company will complete a “maintenance refresh” program in approximately 165 Disney Stores, including the flagship store located on Michigan Avenue in Chicago, by no later than June 30, 2008.

As previously announced, the Company’s Board of Directors has committed \$175 million of capital to fund the remodel and refresh programs described above between now and the end of fiscal 2011.

The Company and Disney also agreed to make certain other modifications to the provisions of the license agreement, including eliminating the extended royalty abatement for some of the Disney Stores that were identified as “Non-Core Stores” in the license agreement, reducing the restrictions on Disney’s ability to grant direct merchandising licenses to other specialty retail store chains, requiring the potential implementation of a differentiated merchandise plan for the Disney Store outlets and modifying the provisions of the license agreement that would apply to a potential wind-down of the Disney Store business following any termination of the license agreement.

If the Company fully complies with the terms of the letter agreement, Disney has agreed to refrain from exercising any rights or remedies that it would have based on

the existing breaches of the license agreement that are identified in the letter agreement. However, if the Company violates any of the provisions of the letter agreement, Disney has the right to terminate this forbearance and the letter agreement, in which case Disney would be free to exercise any or all of its rights and remedies under the license agreement, including terminating the Company's license to operate the Disney Stores.

In addition, if the Company breaches any of the provisions of the letter agreement on three or more occasions, Disney can require the Company to make a payment of \$18.0 million to Disney.

If the Company violates any of the provisions of the letter agreement on five or more occasions, Disney has the right to terminate the license agreement, without any right on the part of the Company to defend, counterclaim, protest or cure. Disney continues to retain all its other rights and remedies under the license agreement with respect to any other breaches that may occur.

48. The statements referenced above in ¶¶24, 26, 28-42, and 44-47 were materially false and misleading when made because they misrepresented and failed to disclose the following adverse facts, which were known to Defendants or recklessly disregarded by them:

- (a) that the Company was experiencing difficulties meeting certain deadlines for the remodeling and maintenance of its Disney stores and Disney was not satisfied with the Company's performance under their agreement;

- (b) that, as a result of the Company's performance issues, the Company's exclusive ability to contract, manufacture, source, offer and sell merchandise featuring Disney-branded characters, past, present and future was at risk of being materially altered and/or lost completely; and

- (c) as a result of the foregoing, Defendants lacked a reasonable basis for their positive statements about the Company, its prospects and revenue growth.

49. On July 9, 2007, the Company issued a press release announcing its total consolidated sales for the five-week period ended July 7, 2007. For the period, the Company reported total

consolidated sales of approximately \$154.7 million. With regard to the Company's outlook, the press release stated:

Based on quarter-to-date sales trends, the Company anticipates reporting a loss per share of approximately \$(0.94) to \$(0.98) for the second quarter ending August 4, 2007. This earnings per share range includes approximately \$2.0 million, pre-tax, in costs paid or accrued in association with the Company's previously disclosed stock option investigation and related expenses.

"In the month of June, sales came in below our expectations at both brands," said Ezra Dabah, Chief Executive Officer of The Children's Place Retail Stores, Inc. "As a result, we took significantly more markdowns which are negatively impacting our gross margin. We believe our assortments at both brands were not as focused and compelling as last year, which has been compounded by continuing mall traffic declines."

"As we look at our back-to-school and holiday assortments at both brands, we remain cautiously optimistic about the second half. Our merchandise is focused and we remain true to our formula of fashion, quality and value."

The Company stated that inventory per square foot at the end of the second quarter is anticipated to be in-line to below previous guidance at The Children's Place and in-line with guidance at Disney Store, as previously provided by the Company on its first quarter conference call.

50. In response to this announcement, shares of the Company stock fell \$6.12 per share, or 12%, to close at \$46.42 per share, on extremely heavy trading volume. Defendants, however, continued to conceal the true scope of the problems at the Company.

51. On July 11, 2007, the Company issued a press release announcing its sales for the five-week period ended July 7, 2007. For the period, the Company reported sales of \$155.4 million.

With regard to the Company's outlook, the press release stated:

As announced on July 9, 2007, the Company anticipates reporting a loss per share of approximately \$(0.94) to \$(0.98) for the second fiscal quarter ending August 4, 2007. This loss per share range includes approximately \$2.0 million, pre-tax, in costs paid or accrued in association with the Company's previously disclosed stock option investigation and related expenses.

Further, as stated in the Company's press release on July 9, 2007, at this time, the Company anticipates becoming current in its quarterly and annual filings with the Securities and Exchange Commission by the end of August.



52. From July 16, 2007 to August 1, 2007, as investors continued to digest the Company's July 9, 2007 press release, shares of the Company's stock fell \$11.88 per share, or 26%, to close at \$33.08 per share.

53. On August 9, 2007, the Company issued a press release announcing its sales results for the four-week period ended August 4, 2007. For the period, the Company reported total sales of \$141.2 million. With regard to the Company's outlook, the press release stated:

The Company continues to anticipate reporting a loss per share of approximately \$(0.94) to \$(0.98) for the second quarter of fiscal 2007. As a reminder, this loss per share range includes approximately \$2.0 million, pre-tax, in costs paid or accrued in association with the Company's previously disclosed stock option investigation and related expenses, which is in line with previous guidance. Further, as stated in its July 9, 2007 press release, the Company expects to provide an update to full fiscal year earnings guidance on its second quarter conference call, scheduled for Thursday, August 23, 2007.

The Company stated that inventory per square foot at the end of the second quarter is anticipated to be below previous guidance at The Children's Place and in-line with guidance at Disney Store, as previously provided by the Company on its first quarter conference call.

Defendants continued to conceal the problems with the Disney agreement.

54. Then, on August 23, 2007, the Company issued a press release announcing its preliminary fiscal 2007 second quarter financial results, the Company's earnings guidance and its Disney agreement. For the fiscal second quarter, the period ended August 4, 2007, the Company reported consolidated net sales of \$424.3 million and a preliminary net loss of \$27.1 million. With regard to the Company's outlook, the press release stated:

#### Fiscal Year 2007 Guidance

At this time, the Company anticipates reporting earnings per share of \$2.25 to \$2.40 for fiscal 2007. This updated guidance includes the \$3.4 million, pre-tax, in stock option investigation and related expenses incurred in the first half of fiscal 2007.

The Company's full year guidance assumes it will earn \$0.94 to \$1.02 per share in the third fiscal quarter and \$1.79 to \$1.86 per share in the fourth fiscal quarter.



Ezra Dabah, Chief Executive Officer of The Children's Place Retail Stores, Inc. commented, "We remain cautiously optimistic regarding the second half and are pleased with month-to-date sales trends. However, in view of the sales and margin trends we have experienced through the first half, we believe it's best to take a conservative view for the remainder of the year."

With regard to its agreement with Disney, the press release stated:

#### Disney Update

The Company also provided an update regarding its License Agreement with The Walt Disney Company under which the Company operates the Disney Store chain in the United States and Canada.

As previously announced, on June 8, 2007, the Company and Disney executed a letter agreement which modified certain provisions of the parties' long-term license agreement, to address claims by Disney that the Company had committed numerous material breaches of the license agreement. The June letter agreement provided that Disney would treat the Company's breaches as having been cured so long as the Company complied with the terms of the June letter agreement. The June letter agreement imposed specific obligations on the Company with respect to the remodeling and refreshing of numerous stores in the Disney Store chain between fiscal 2007 and fiscal 2011 and, for the stores to be remodeled in fiscal 2007 and fiscal 2008, set forth a detailed timetable for submission of plans and completion dates.

To date the Company has been unable to meet several of the deadlines set forth in the June letter agreement. In every instance except for this most recent one, Disney has provided the Company with written confirmation that it does not consider these missed deadlines to constitute breaches of the June letter agreement. While the Company expects that the amendment to the license agreement described below will defer the one remaining deadline that was missed, unless and until this amendment agreement is signed, the Company will be in breach of the June letter agreement, entitling Disney to exercise its remedies under the June letter agreement and the license agreement, including possible termination of the license agreement. In addition, this breach constitutes a cross-default under the secured credit facility for the Disney Store chain, entitling the lenders to exercise their contractual remedies. Neither Disney nor the lenders have notified the Company that they have, or intend to, exercise their rights mentioned above, but there can be no assurance that they will not exercise their rights in the future.

***In addition, the Company has identified various upcoming deadlines during the third and fourth quarters of fiscal 2007 that it will likely miss.*** The Company and Disney have been engaged in recent discussions regarding potential changes to the requirements of the June letter agreement that would postpone the due dates of certain of the Company's remodel obligations until later in fiscal 2007, fiscal 2008 and fiscal 2009. In consideration for these changes, the parties have also been

discussing changes to the original license agreement to allow Disney to relocate its flagship store in Manhattan.

***In addition, the parties have been discussing modifications so that Disney's ability to grant direct licenses to other specialty retailers for the sale of Disney merchandise will apply only to specialty retailers primarily focused on the sale of children's merchandise.*** It is expected that these various changes would be incorporated in an amendment to the license agreement.

There can be no assurance that the Company's discussions with Disney will result in any agreement or that the dates for the Company's remodel obligations will be deferred. Whether or not these dates are deferred, the Company's ability to meet its obligations under the June letter agreement will depend on numerous factors, some of which are beyond the Company's control, and there can be no assurance that it will be able to fully comply. If the Company fails to comply with these obligations, it will be in breach of the June letter agreement, entitling Disney to exercise its remedies under the June letter agreement and the license agreement. [Emphasis added.]

With regard to the Company's inability to file its quarterly reports with the SEC, the press release stated:

#### SEC/Nasdaq Update

The Company has been working diligently on completing its delayed financial statements and SEC reports, including its Annual Report on Form 10-K for the fiscal year ended February 3, 2007, and its quarterly reports on Form 10-Q for the second and third quarters of fiscal 2006 and first quarter of fiscal 2007. The Company remains committed to making every effort to complete these filings by August 31, 2007, as previously announced. However, these filings may not be completed by August 31st, in which case the Company would expect to file its SEC reports in September. While the Company believes the work surrounding the accounting for its historical stock option grants is substantially completed, additional factors have arisen causing further delay, which include the above mentioned discussions with Disney. The Company currently does not anticipate that it will complete its delinquent SEC filings until the current discussions with Disney regarding possible modifications to the June letter agreement and the license agreement are completed and full disclosure regarding any such modifications is included in its SEC reports. ***In addition, in connection with the Board's ongoing review of internal controls and compliance, the Company has identified certain violations of the Company's policies and procedures by two executives of the Company.*** The Board expects to complete its consideration of these matters prior to filing the Form 10-K.

As previously announced, the Company has been advised by the Nasdaq Stock Market on several occasions that the Company is not in compliance with Nasdaq listing requirements because of its delinquent SEC filings and that the Company will be delisted if it does not file these reports with the SEC. The Nasdaq Listing and

Hearing Review Council granted the Company an extension of the time in which to file these reports with the SEC through September 4, 2007. The Company has since received notification that the Nasdaq Board of Directors has put on hold any future action by the Council to delist the Company's stock from Nasdaq pending further consideration by the Nasdaq Board. If the Company is unable to file its delinquent SEC reports by the end of August, the Company will request that the Nasdaq Board grant it an additional period of time to file the required reports with the SEC. There is no assurance that the Nasdaq Board will grant additional time to file with the SEC the required reports or, if granted, that the Company will be able to file the reports by such new deadline. [Emphasis added.]

55. In response to this announcement, shares of the Company's common stock fell \$5.59 per share, or 17%, to close at \$27.43 per share, on heavy trading volume.

56. The markets for The Children's Place common stock were open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, The Children's Place's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired The Children's Place's common stock relying upon the integrity of the market price of The Children's Place's common stock and market information relating to The Children's Place, and have been damaged thereby.

57. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of The Children's Place's common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

58. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused, or were a substantial contributing cause of, the damages sustained by Plaintiff and other members of the Class. As described herein, during the

Class Period, Defendants made or caused to be made a series of materially false or misleading statements about The Children's Place's business, prospects and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of The Children's Place and its business, prospects and operations, thus causing the Company's common stock to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's common stock at artificially inflated prices, thus causing the damages complained of herein.

#### **Additional Scienter Allegations**

59. As alleged herein, Defendants acted with scienter in that Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of information reflecting the true facts regarding The Children's Place, their control over, and/or receipt and/or modification of The Children's Place's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning The Children's Place, participated in the fraudulent scheme alleged herein.

#### **Loss Causation/Economic Loss**

60. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct which artificially inflated the prices of The Children's Place's common stock and operated as a fraud or deceit on Class Period purchasers of The Children's Place's common stock by failing to disclose the problems with the licensing agreement

with Disney. When Defendants' prior misrepresentations and fraudulent conduct were disclosed and became apparent to the market, the price of The Children's Place's common stock fell precipitously as the prior artificial inflation came out. As a result of their purchases of The Children's Place's common stock during the Class Period, Plaintiff and the other Class members suffered economic loss, i.e., damages, under the federal securities laws.

61. By failing to disclose the problems with the licensing agreement with Disney, among other things, Defendants presented a misleading picture of The Children's Place's business and prospects. Defendants' false and misleading statements had the intended effect and caused The Children's Place's common stock to trade at artificially inflated levels throughout the Class Period, reaching as high as \$71.08 per share on October 26, 2006.

62. As a direct result of Defendants' disclosures on July 9, 2007 and August 22, 2007, the price of The Children's Place common stock fell precipitously, falling by a collective \$11.71 per share, or 30%. These drops removed the inflation from the price of The Children's Place common stock, causing real economic loss to investors who had purchased The Children's Place common stock during the Class Period.

63. The 30% decline in the price of The Children's Place common stock after these disclosures came to light was a direct result of the nature and extent of Defendants' fraud finally being revealed to investors and the market. The timing and magnitude of the price decline in The Children's Place common stock negates any inference that the loss suffered by Plaintiff and the other Class members was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to the Defendants' fraudulent conduct. The economic loss, i.e., damages, suffered by Plaintiff and the other Class members was a direct result of Defendants' fraudulent scheme to artificially inflate the prices of The Children's Place common stock and the

subsequent significant decline in the value of The Children's Place common stock when Defendants' prior misrepresentations and other fraudulent conduct were revealed.

**Applicability of Presumption of Reliance:  
Fraud on the Market Doctrine**

64. At all relevant times, the market for The Children's Place's common stock was an efficient market for the following reasons, among others:

(a) The Children's Place common stock met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) as a regulated issuer, The Children's Place filed periodic public reports with the SEC and the NASDAQ;

(c) The Children's Place regularly communicated with public investors via established market communication mechanisms, including regular disseminations of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) The Children's Place was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

65. As a result of the foregoing, the market for The Children's Place common stock promptly digested current information regarding The Children's Place from all publicly available sources and reflected such information in the prices of the stock. Under these circumstances, all purchasers of The Children's Place common stock during the Class Period suffered similar injury through their purchase of The Children's Place common stock at artificially inflated prices and a presumption of reliance applies.

### **No Safe Harbor**

66. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. Many of the specific statements pleaded herein were not identified as “forward-looking statements” when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements were made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of The Children’s Place who knew that those statements were false when made.

### **COUNT I**

#### **Violation of Section 10(b) of the Exchange Act Against and Rule 10b-5 Promulgated Thereunder Against All Defendants**

67. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

68. During the Class Period, Defendants disseminated or approved the materially false and misleading statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

69. Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not

misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's common stock during the Class Period.

70. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for The Children's Place common stock. Plaintiff and the Class would not have purchased The Children's Place common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

71. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchases of The Children's Place common stock during the Class Period.

## **COUNT II**

### **Violation of Section 20(a) of the Exchange Act Against the Individual Defendants**

72. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

73. The Individual Defendants acted as controlling persons of The Children's Place within the meaning of Section 20(a) of the Exchange Act as alleged herein. By reason of their positions as officers and/or directors of The Children's Place, and their ownership of The Children's Place stock, the Individual Defendants had the power and authority to cause The Children's Place to engage in the wrongful conduct complained of herein. By reason of such conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act.

**WHEREFORE**, Plaintiff prays for relief and judgment, as follows:



A. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a Class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such other and further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiff hereby demands a trial by jury.

DATED: September 21, 2007

COUGHLIN STOIA GELLER RUDMAN &  
ROBBINS LLP  
SAMUEL H. RUDMAN (SR-7957)  
DAVID A. ROSENFELD (DR-7564)  
MARIO ALBA, JR. (MA-7240)

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Attorneys for Plaintiff

**CERTIFICATION OF NAMED PLAINTIFF  
PURSUANT TO FEDERAL SECURITIES LAWS**

DEBRA HALL ("Plaintiff") declares:

1. Plaintiff has reviewed a complaint and authorized its filing.
2. Plaintiff did not acquire the security that is the subject of this action at the direction of plaintiff's counsel or in order to participate in this private action or any other litigation under the federal securities laws.
3. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.
4. Plaintiff has made the following transaction(s) during the Class Period in the securities that are the subject of this action:

**Acquisitions:**

Date Acquired	Number of Shares Acquired	Acquisition Price Per Share
5/17/07	100	\$50.87
5/23/07	100	54.67
7/10/07	100	44.75

**Sales:**

Date Sold	Number of Shares Sold	Selling Price Per Share

5. Plaintiff has not sought to serve or served as a representative party for a class in an action filed under the federal securities laws except as detailed below during the three years prior to the date of this Certification:

6. The Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiff's pro rata share of any recovery,

except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct.  
Executed this 7 day of September, 2007.

  
\_\_\_\_\_  
DEBRA HALL